

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sandusky Fire Department Association	County Sanilac
Audit Date 02/28/2005	Opinion Date 06/24/2005	Date Accountant Report Submitted to State: 08/02/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

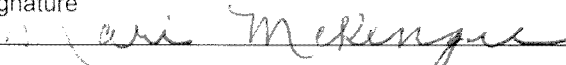
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.			
Street Address 3149 Main Street Plaza #4, P.O. Box 218	City Marlette	State MI	ZIP 48453
Accountant Signature 			

**Sandusky Community Fire Department Association**

**Sandusky, Michigan**

**Annual Financial Statements**

**and**

**Auditors' Report**

**February 28, 2005**

## Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS	
Governmental Fund Balance Sheet	2
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	3
Notes to Financial Statements	4 - 8



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## Independent Auditors' Report

Honorable Board Members  
Sandusky Community Fire Department Association  
Sandusky, Michigan

Members of the Board:

We have audited the accompanying financial statements of the major fund of Sandusky Community Fire Department Association, as of and for the year ended February 28, 2005. These financial statements are the responsibility of Sandusky Community Fire Department Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Sandusky Community Fire Department Association, as of February 28, 2005, or the changes in its financial position for the year then ended.

Sandusky Community Fire Department Association has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
June 24, 2005

**Sandusky Community Fire Department Association**  
**Governmental Fund - Balance Sheet**  
**February 28, 2005**

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	<u>General</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 138,743
Receivable - fire runs (net of allowance of \$ 12,625)	12,706
Prepaid expense	6,514
Restricted cash	<u>84,182</u>
 Total assets	 <u><u>\$ 242,145</u></u>
<b>Liabilities and Fund Balance</b>	
Liabilities	
Accrued rent payable	<u>\$ 845</u>
 Fund balance	
Reserved	84,182
Unrestricted	<u>157,118</u>
 Total fund balance	 <u>241,300</u>
 Total liabilities and fund balance	 <u><u>\$ 242,145</u></u>

See Accompanying Notes to Financial Statements

# Sandusky Community Fire Department

## Governmental Fund

### Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual For the Year Ended February 28, 2005

	Original/ Final Budget	Actual	Over (Under) Budget
Revenues			
Contribution from City of Sandusky	\$ 63,629	\$ 63,629	\$ -
Contribution from Watertown Township	48,804	48,804	-
Contribution from Custer Township	27,587	27,587	-
Contribution from Elmer Township	6,800	6,800	-
Interest	200	2,325	2,125
Fire runs	20,000	20,265	265
Miscellaneous	-	604	604
Contributions	-	100	100
Total revenues	<u>167,020</u>	<u>170,114</u>	<u>3,094</u>
Expenditures			
Salaries	19,200	17,288	(1,912)
Social security taxes	2,000	1,323	(677)
Workers' compensation	1,600	1,330	(270)
Operating supplies	4,000	3,910	(90)
Safety gear	5,200	3,801	(1,399)
Telephone	2,000	1,371	(629)
Gas and oil	1,400	1,075	(325)
Insurance	14,325	12,313	(2,012)
Electrical	2,200	2,359	159
Heating	5,000	3,029	(1,971)
Rent	12,000	11,968	(32)
Sewer and water charges	900	853	(47)
Maintenance - building	2,550	3,262	712
Maintenance - vehicle	14,500	14,384	(116)
Education and training	1,500	1,250	(250)
Membership dues	625	191	(434)
Miscellaneous	1,000	-	(1,000)
Capital outlay - equipment	22,000	-	(22,000)
Debt - principal	30,820	30,816	(4)
Debt - interest	2,500	2,488	(12)
Professional fees	1,500	1,243	(257)
Total expenditures	<u>146,820</u>	<u>114,254</u>	<u>(32,566)</u>
Net change in fund balance	20,200	55,860	35,660
Fund balance - beginning of year	<u>185,440</u>	<u>185,440</u>	<u>-</u>
Fund balance - end of year	<u>\$ 205,640</u>	<u>\$ 241,300</u>	<u>\$ 35,660</u>

See Accompanying Notes to Financial Statements

**Sandusky Community Fire Department Association**  
**Notes to Financial Statements**  
**February 28, 2005**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Association Operation and Fund Types**

The Sandusky Community Fire Department Association was created on March 1, 2001, by the City of Sandusky and the Townships of Custer, Elmer and Watertown. All of the governmental entities are located in Sanilac County, Michigan. The department operates under a joint nine (9) member board consisting of two (2) representatives from each of the entities and one (1) member elected at large by the board, for the purpose of providing total fire protection to the City of Sandusky, all of Watertown Township, twenty-four (24) square miles of Custer Township, and sixteen (16) square miles of Elmer Township. The Association was established under Public Act 22, commonly known as the Fire Protection Act, which provides that adjoining cities with a population of not more than 15,000 and townships acting jointly may establish, fund, maintain and regulate a fire department for the benefit of the residents thereof.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) in its Statement No. 14, the Sandusky Community Fire Department Association is not considered to be part of any other governmental entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public services, fiscal independence, financial accountability, imposition of will and financial benefit or burden. On this basis, the financial statements of other governmental organizations are not included in the financial statements of the Sandusky Community Fire Department Association.

**Basis of Presentation**

The financial activities of the Association are recorded in separate funds and account groups, categorized as follows:

Governmental Fund Type

*General Fund* - The General Fund is the general operating fund of the Association. It is used to account for all financial resources except those required to be accounted for in another fund.

**Basis of Accounting**

Basis of accounting refers to the timing of when revenues and expenditures are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The Governmental Fund Type is accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become measurable or available to finance current operations and expenditures are recognized when the related liability is incurred.

**Cash and Cash Equivalents**

Cash equivalents consist of investment trusts which are recorded at cost which approximates market value. The investment trusts have the general characteristics of demand deposit accounts in that the Association may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**Sandusky Community Fire Department Association**  
**Notes to Financial Statements**  
**February 28, 2005**

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**Budgets**

Public Act 621 of 1978, Section 18(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Sandusky Community Fire Department Association's actual expenditures and budgeted expenditures for the funds budgeted have been shown on an activity basis. The approved budget of Sandusky Community Fire Department Association was adopted at the activity level. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

**NOTE 2 - FIRE PROTECTION AGREEMENT**

Effective March 1, 2001, the City of Sandusky and the Townships of Custer, Elmer and Watertown, entered into an agreement to create the Sandusky Community Fire Department Association for the purpose of providing fire protection services. The Fire Department operates under a nine (9) member board composed of City and Township representatives who have the power to purchase, maintain and operate the department as they see necessary. Under the agreement, each municipality shall pay its proportional share of the operating expenses, based upon the number of fire runs, excluding depreciation, plus any fixed assets purchased according to a formula agreed upon by the Board.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The Association's deposits and investments totaling \$222,925 are presented on the balance sheet as cash and cash equivalents.

Michigan Compiled Laws, Section 129.91, authorizes the Association to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of the United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Association's Board has designated two (2) banks for deposit of funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and Certificates of Deposits in financial institutions that maintain an office in Michigan.

At February 28, 2005, total bank deposits amounted to \$228,959, of this amount, \$109,622 is FDIC insured and \$119,337 is uninsured and uncollateralized.



**Sandusky Community Fire Department Association**  
**Notes to Financial Statements**  
**February 28, 2005**

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**NOTE 4 - EXPENDITURES IN EXCESS OF APPROPRIATIONS**

The Association exceeded budgeted amounts as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over</u>
Electrical	\$ 2,200	\$ 2,359	\$ 159
Maintenance - building	<u>2,550</u>	<u>3,262</u>	<u>\$ 712</u>
Total	<u>\$ 4,750</u>	<u>\$ 5,621</u>	<u>\$ 871</u>

**NOTE 5 - RESTRICTED ASSETS**

**Sinking Fund**

The original capital contributions received in cash by the Association from the constituent units and interest earned on these contributions was restricted for the purchase of vehicles and fire fighting equipment and apparatus. The constituent units also make annual contributions to the sinking fund based upon budgeted amounts. Details of the changes in restricted assets for the year ended February 28, 2005 are as follows:

Balance at March 1, 2004	\$ 63,937
Additions	
Contributions from constituent units	\$ 20,000
Interest income	<u>245</u>
	<u>20,245</u>
Balance at February 28, 2005	<u>\$ 84,182</u>

Restricted assets and fund balance consisted of the following as of February 28, 2005

Sinking Fund Balance	<u>\$ 84,182</u>
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**NOTE 6 - CHANGES IN GENERAL FIXED ASSETS**

The following is a summary of changes in the General Fixed Assets Account Group during the year ended February 28, 2005.

	<u>Balance March 1, 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance February 28, 2005</u>
Equipment	<u>\$ 560,128</u>	<u>\$ 1,849</u>	<u>\$ -</u>	<u>\$ 561,977</u>

**Sandusky Community Fire Department Association**  
**Notes to Financial Statements**  
**February 28, 2005**

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**NOTE 7 - LONG-TERM DEBT**

The following is a summary of changes in the long term debt for the year ended February 28, 2005:

	Balance March 1, 2004	Additions	Payments	Balance February 28, 2005
2000 Bank One, 3.95% interest, final payment due April 15, 2005	\$ 62,988	\$ -	\$ 30,816	\$ 32,172

The annual debt service requirement, including interest is as follows:

2000 Bank One	Principal	Interest	Totals
2005	\$ 32,172	\$ 1,132	\$ 33,304

**NOTE 8 - RISK MANAGEMENT**

The Sandusky Community Fire Department Association is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Association, together with other municipalities, is a member of the Michigan Municipal Risk Management Authority (MMRMA). A public entity risk pool currently operating as a common risk management and insurance program which charges an annual premium to its members for insurance coverage. The pool is self-sustaining through member premiums and provides reinsurance through commercial companies for claims. The MMRMA provides general liability, property, crime and fleet coverage to the Association.

The Association does not provide employee health or life insurance coverage. The Association does provide workers compensation insurance coverage. Workers compensation and employers liability insurance policy is through Accident Fund Company.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

The Association rents the fire hall on a yearly basis from the City of Sandusky at an annual rental of \$11,976. The City of Sandusky is a member of the Association.



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June 24, 2005

To the Board of Directors  
Sandusky Community Fire Department Association  
Sandusky, Michigan

In planning and performing our audit of the financial statements of the Sandusky Community Fire Department Association for the year ended February 28, 2005, we considered the Association's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated June 24, 2005, on the financial statements of the Sandusky Community Fire Department Association.

#### **Chart of Accounts**

Your chart of accounts numbering system is not in compliance with the chart listed in the Uniform Accounting Procedures Manual. We recommend you update your chart of accounts to add the proper account number to each account name.

#### **Cash**

Internal controls could be strengthened by having a board member receive the unopened bank statement each month and review the activity. The statement could then be given to the Treasurer for the monthly reconciliation. As stated in our letter from the prior year, if there is a problem reconciling it should be taken care of in a timely manner so it does not cause a continual problem each month. Problems noted include activity not being recorded or recorded in the wrong account in the ledger. Some adjustments were made to cash and the offset posted to an equity account. Adjustments should not be posted to equity. They need to be researched and posted to the proper account as necessary. The board should also be reviewing the bank statement and the reconciliation at the monthly board meeting.

#### **Accounts Receivable**

We recommend you closely watch your fire run receivables through out the year to monitor collections. Collecting on fire runs has been a problem for the past few years and little improvement was seen this fiscal year. You had net write offs and allowances on fire runs of \$24,735. This amount was netted against the fire run revenue. We acknowledge you have been more aggressive about collections recently and anticipate seeing improvement in the fiscal year ending February. However, it would make more financial sense to place the uncollected fire runs on the tax rolls versus paying the cost of small claims court or other collection agencies. It is our recommendation that you place the amounts from uncollected fire runs on the tax rolls whenever possible.

### **GASB 34**

1. You have elected not to adopt GASB 34 for the fiscal year ended February 28, 2005. Because of this you are not in compliance with accounting principles generally accepted in the United States of America and an adverse opinion has been issued.

We will discuss the status of these comments during our next audit engagement. We have already discussed many of the comments and suggestions with the Treasurer, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the Association for their support and assistance during our audit. It is with pride that we count the Sandusky Community Fire Department Association as one of our clients.

This report is intended solely for the information and use of the Board of Directors, management and others within the Association and is not intended to be and should not be used by anyone other than these specified parties.

*Yeo & Yeo, P.C.*  
Marlette, Michigan  
June 24, 2005